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No. .....

IN THE

Supreme Court of the United States

October Term 1980

HOWARD MORSEBURG,

Petitioner,

vs.

ANDRE BALYON and CALIFORNIA ARTS COUNCIL, an agency of the State of California,

Respondents,

vs.

RICHARD MAYER and PETER ALEXANDER,

Respondents (Intervention).

Petition of Howard Morseburg for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit.

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Questions Presented.

1. Is a state law subject to federal preemption where such law (1) is applicable to a category of works which falls within the subject matter covered by the federal Copyright Act, and (2) such law purports to grant to the author of a work in such a category certain rights in such work which rights are not available to the author under the Copyright Act?

2. Does the "first sale doctrine" under the federal Copyright Act, whereby when an author sells a copy (in-

cluding the original rendering) of his work, he is precluded thereafter from forbidding, preventing or restricting the resale of such copy, constitute a federal policy binding upon the states under the Supremacy Clause?

3. Does an obligation imposed by state law that the owner of a work of fine art who resells such work must pay to the artist that created such work 5% of the gross proceeds realized from such sale constitute a ''restriction'' on resale within the meaning of the ''first sale doctrine''?

4. Does a state law which imposes on the owner of a work of fine art an obligation to pay a 5% resale royalty to the artist who created such work, where prior to the enactment of such law the owner acquired ownership in such work under a contract that imposed no restrictions on his right to resell, constitute an impairment of the obligation of contract under the Contract Clause of the United States Constitution?

5. Does a law such as that described in Question 4 above constitute a deprivation of property without due process of law in violation of the Fourteenth Amendment of the United States Constitution?

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OPINIONS BELOW.

The June 17, 1980 opinion of the Court of Appeals is reported at 621 F.2d 972 (1980) and is set out in Appendix A to this Petition. The March 28, 1978 Memorandum Opinion of the United States District Court for the Central District of California is officially unreported (but is reported unofficially at 201 U.S.P.Q. 518 (1978)) and is set out in Appendix B to this Petition. The Errata Correction to the Memorandum Opinion of March 28, 1978 is set out in Appendix C of this Petition.

JURISDICTION.

The judgment of the Court of Appeals was entered on June 17, 1980. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISIONS INVOLVED.

Article I, Section 8, Clause 8 of the United States Constitution provides in pertinent part:

> "The Congress shall have the power . . . to promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

Article VI of the United States Constitution provides in pertinent part:

> "This Constitution, and the laws of the United States which shall be made in pursuance thereof . . . shall be the supreme law of the land; and the judges in every State shall be bound thereby . . . ."

Article I, Section 10, Clause 1 of the United States Constitution provides in pertinent part:

> "No State shall . . . pass any . . . law impairing the Obligation of Contracts . . . ."

The Fourteenth Amendment to the United States Constitution provides in pertinent part:

> "No State shall . . . deprive any person of life, liberty or property, without due process of law . . . ."

STATUTES INVOLVED.

Section 1 of the United States Copyright Act of 1909 provides in pertinent part:

> "Any person entitled thereto, upon complying with the provisions of this title, shall have the exclusive right . . . to print, reprint, publish, copy and vend the copyrighted work . . . ."

Section 27 of the United States Copyright Act of 1909 provides in pertinent part:

> "Nothing in this title shall be deemed to forbid, prevent or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained."

Section 986 of the California Civil Code is set out in full in Appendix D to this Petition.

STATEMENT OF THE CASE.

Petitioner is an art dealer. On March 24, 1977 he sold two paintings which, pursuant to the provisions of the California Resale Royalties Act (California Civil Code Section 986 set out in full in Appendix D) would require him to pay royalties to the artists who created such paintings, or if they cannot be located, then to an agency of the State of California. On June 29, 1977 Petitioner brought an action for declaratory relief in the United States District Court for the Central District of California challenging the constitutionality of California Civil Code Section 986 claiming that it was preempted by the 1909 Copyright Act and that it violated due process and the Contract Clause. On March 23, 1978 a Judgment was entered against Petitioner and on

April 19, 1978 a timely Notice of Appeal was filed with the United States Court of Appeals for the Ninth Circuit. On June 17, 1980 the Court of Appeals rendered its opinion affirming the Judgment below.

INITIAL BASIS FOR FEDERAL JURISDICTION.

Jurisdiction of the federal courts was based on 28 U.S.C. § 1338(a).

REASONS FOR GRANTING THE WRIT.

1. THE DECISION BELOW RAISES SIGNIFICANT AND RECURRING PROBLEMS CONCERNING THE POWER OF THE STATES TO INHIBIT THE DISPOSITION OF COPIES OF WORKS WHICH FALL WITHIN THE SUBJECT MATTER OF THE FEDERAL COPYRIGHT ACT.

a. The Need for a Clarification of Federal Preemption Principles as Applied to Categories of Works Which Fall Within the Subject Matter Covered by the Federal Copyright Act.

In *Goldstein v. California,* 412 U.S. 546 (1973) this Court held that there was no federal preemption of a state law regulating a category of works (i.e. pre-1972 recordings of musical performances) which constitutionally would be eligible for federal copyright protection where in fact such category was not protected under the federal statute. This Court concluded that Congress' failure to protect a given category of works under the Copyright Act did not in itself evince an intent to preclude the states from granting such protection. *Goldstein* did not rule on the extent of federal preemption with respect to categories of works which do fall within the subject matter of the Copyright Act. The earlier cases of *Sears, Roebuck and Co. v. Stiffel Co.,* 376 U.S. 225 (1964) and *Compco Corp. v. Day-Brite Lighting,* 376 U.S. 234 (1964) established the principle that with respect to categories of works which are included under patent or copyright protection, to the extent that a particular work falling within such a protectible category is subject to "limitations on its exercise" (*Sears, Roebuck & Co. v. Stiffel Co., supra* at p. 230) of rights under the patent or copyright laws, the States are precluded from enacting laws which grant protection to such works in excess of such limitations. "Obviously a State could not, consistently with

the Supremacy Clause of the Constitution, extend the life of a patent beyond its expiration date or give a patent to an article which lacked the level of invention required for federal patents." *Sears, Roebuck & Co. v. Stiffel Co., supra* at p. 231. The later opinion in *Goldstein*, however, left the application of this principle in the copyright sphere somewhat in doubt. *Goldstein* may be read as limiting the above principle in *Sears* and *Compco* to the patent sphere,[1] even though the *Sears* and *Compco* opinions themselves would appear to apply the preemption principle there invoked to

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[1] "*Sears* and *Compco*, on which petitioners rely, do not support their position. In those cases, the question was whether a State could, under principles of state unfair competition law, preclude copying of mechanical configurations which did not possess the qualities required for the granting of a federal design or mechanical patent . . . In regard to mechanical configurations, Congress had balanced the need to encourage innovation and originality of invention against the need to insure competition in the sale of identical or substantially identical products. The standards established for granting federal patent protection to machines thus indicated not only which articles in this particular category Congress wished to protect, but which configurations it wished to remain free. The application of state law in these cases to prevent the copying of articles which did not meet the requirements for federal protection disturbed the careful balance which Congress had drawn and thereby necessarily gave way under the Supremacy Clause of the Constitution. No comparable conflict between state law and federal law arises in the case of recordings of musical performances. In regard to this category of 'Writings,' Congress had drawn no balance; rather they have left the area unattended, and no reason exists why the State should not be free to act." *Goldstein v. California, supra* at pp. 569-570.

The above distinction between preemption in the patent sphere and the withholding of preemption in the copyright sphere, because in the latter unlike the former, Congress in failing to protect a work "had drawn no balance [and] left the area unattended" has been further obscured by the subsequent case of *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974). In *Kewanee* this Court held that a trade secret law applicable to nonpatentable subject matter was not the subject of federal preemption because in withholding protection in the patent sphere Congress had "drawn no balance [and] left the area unattended" (416 U.S. at p. 483). This seeming contradiction between *Goldstein* (which states that in the patent sphere Congress did *not* leave the area unattended) and *Kewanee* (which states that in the patent sphere Congress *did* leave the area unattended) also calls for further clarification by this Court.

the copyright as well as the patent sphere.[2] For reasons indicated below, the better view would be that *Goldstein* only limits copyright preemption of state law pursuant to *Sears* and *Compco* where such state law deals with a category of works not covered by the Copyright Act. It would then leave *Sears* and *Compco* as viable preemption doctrine with respect to a purported state law grant of rights in works which are within a protected Copyright Act category of works. But *Goldstein* is ambiguous on this question, and this very ambiguity led the court of appeals below into the error of relying upon *Goldstein* as authority for its conclusion that the California Resale Royalties Act is not preempted by the Copyright Act. It is submitted that the mischief which such a decision works to the entire federal copyright system (as explained below) renders it vitally important that this Court agree to hear this case, so that a much needed clarification of the law of preemption within the copyright sphere may be achieved. The fact that this case arose under the Copyright Act of 1909 (61 Stat. 652) and that since then the Copyright Act of 1976 (P.L. 94-553) has been enacted does not render any less urgent this needed clarification.

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[2]This Court in *Compco* stated:

> "Today we have held in Sears, Roebuck & Co. v. Stiffel Co., supra, that when an article is unprotected by a patent *or a copyright,* state law may not forbid others to copy that article. To forbid copying would interfere with the federal policy, found in Art. I, §8, cl. 8, of the Constitution and in the implementing statutes, of allowing free access to copy whatever the federal patent *and copyright laws* leave in the public domain." 376 U.S. at p. 237 (emphasis added.)

Note also the following references to copyright in *Sears:*

> "The question in this case is whether a State's unfair competition law can, consistently with the federal patent laws, impose liability for or prohibit the copying of an article which is protected by neither a federal patent nor a copyright". 376 U.S. at p. 225; "the purpose of Congress to have national uniformity in patent and copyright laws can be inferred . . ." 376 U.S. at p. 231, ftnt. 7.

The preemption provisions of the Copyright Act of 1976 (17 U.S.C. Sec. 301) were intended by Congress to be "consistent with the 1964 Supreme Court decisions in Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, and Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 . . ." H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. p. 131 (1976). It remains urgent, therefore, even under the new Copyright Act to determine the correct meaning and scope of *Sears* and *Compco*.

b. The Application of Copyright Preemption Principles to the California Resale Royalties Act.

At the outset it is clear that the subject matter of the California Resale Royalties Act consists of works which fall within a protected category under both the Copyright Act of 1909, and its successor, the Copyright Act of 1976. The California Act applies to any "work of fine art". Cal. Civil Code, Sec. 986. "Fine art" is, in turn, defined as "an original painting, sculpture, or drawing." Cal. Civil Code, Sec. 986(c)(2). There can be no question but that original paintings, works of sculpture and drawings constitute "works of art" within the meaning of Sec. 5(g) of the Copyright Act of 1909, and "pictorial, graphic, and sculptural works" within the meaning of Sec. 102(a)(5) of the Copyright Act of 1976. For a general discussion of the scope of such categories of works under both the 1909 and 1976 Copyright Acts see *Nimmer on Copyright*, § 2.08[B](1980).

Of course, a state law is not subject to federal preemption solely because it deals with the same subject matter as that covered by the Copyright Act. In addition, in order to be subject to copyright preemption the state law must "give protection of a kind that clashes with the objectives" of the Copyright Act. See *Sears, Roebuck & Co. v. Stiffel, supra* at p. 231. Such a forbidden clash of objectives occurs where

a state law attempts "to block off from the public something which federal law has said belongs to the public." *Id.* at p. 232. That is precisely what the California Resale Royalty Act does.

In order to understand the nature of this clash between the Copyright Act and the California law it is necessary to consider the "first sale doctrine" under copyright law, a doctrine which the court of appeals below virtually ignored. Among the bundle of rights granted to an "author" (including graphic artists) under the Copyright Act is the right to control the physical disposition of the tangible embodiment of his work (both the original rendering and copies thereof). Under the Copyright Act of 1909 this was called the right "to vend the copyrighted work". 17 U.S.C. Sec. 1(a) (Copyright Act of 1909). Under the new law it is described as the right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending". 17 U.S.C. Sec. 106(3) (Copyright Act of 1976). For a general discussion of this right, see *Nimmer on Copyright,* § 8.11 (1980). At this point it is vital to note an important limitation on the author's right to vend under the 1909 Act. The initial sale of each copy (including the original rendering) of an author's work, if made without his consent, constituted an infringement of the right to vend. However, once a given copy had been sold (with the author's consent), the author's vending right was thereafter exhausted as to that particular copy. That is, he could not prohibit or otherwise inhibit the resale or other further physical transfer of that copy. He could still prohibit the initial sale of other copies of the same work, and he could prohibit the making of copies from the copy which he had sold, but he could not prohibit the resale of any tangible copy which had already been sold under his authority. This limitation occurred by reason of Sec. 27 of

the Copyright Act of 1909 (". . . nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which had been lawfully obtained."), and has come to be known as the "first sale doctrine". See *e.g. United States v. Atherton*, 561 F.2d 747 (9th Cir. 1977); *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977); *Independent News Co. v. Williams*, 293 F.2d 570 (3d Cir. 1961). See the general discussion of the "first sale doctrine" in *Nimmer on Copyright*, § 8.12 (1980). This same doctrine has been carried over to the Copyright Act of 1976. "Section 109(a) [of the Copyright Act of 1976] restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means. Under this principle, which has been established by the court decisions and section 27 of the present [1909] law, the copyright owner's exclusive right of public distribution would have no effect upon anyone who owns 'a particular copy or phonorecord lawfully made under this title' and who wishes to transfer it to someone else or to destroy it. Thus, for example, the outright sale of an authorized copy of a book frees it from any copyright control over its resale price *or other conditions of its future disposition*." H.R.Rep. No. 94-1476, 94th Cong., 2d Sess. p. 79 (1976) (emphasis added).

Suppose that the California law, instead of providing for a royalty payment to artists upon the resale of the tangible embodiment of their works, provided instead that after the initial sale by an artist, he could absolutely prohibit any resale of such tangible embodiment. Surely this would clearly clash with the "first sale doctrine" which expressly provides that after the first sale an author loses the right to

control such resales. May it be argued that although the Copyright Act withholds from the author the right to control resales of copies of his work, it was not intended thereby to preclude the States from providing the author with such a right as a matter of state law? Such an argument must fail on several levels. First, simply as a matter of expressed legislative intent, the drafters of Sec. 27 of the 1909 Act stated that the first sale doctrine was adopted because in their view "it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale." H.R. Rep. No. 2222, 60th Cong. 2d Sess. (1909), reprinted in Appendix 13, *Nimmer on Copyright* (1980) at App. 13-25. (Note that what in the U.S. Code was numbered Sec. 27, as originally enacted was numbered Sec. 41. See *Nimmer on Copyright*, Appendix 7 (1980).) This legislative opinion that it would be "most unwise" to permit "any" control of this nature certainly strongly suggests a federal policy which might not be countered by the states. That this is a matter of federal policy binding upon the states is further confirmed by the House Report on the Copyright Act of 1976, which in referring to the "first sale doctrine", states that the new Sec. 109(a) "restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred *is entitled* to dispose of it by sale, rental, or any other means." H.R.Rep., No. 94-1476, 94th Cong., 2d Sess., p. 79 (1976) (emphasis added). Thus, it was the view of the Judiciary Committee of the 94th Congress that under the 1909 Act (as well as under the 1976 Act) the author (or copyright owner) "is entitled" to freely dispose of the copy which he has purchased. To be "entitled" to perform an act goes beyond merely saying that

there is an immunity from federal law. Again it strongly suggests a federal policy which may not be countered by the states.

But suppose that there were no such statement of legislative intent, and merely a limitation of the federal right. It would still follow that the States may not extend that right as a matter of state law beyond the point which it terminated under federal law. To do so would be to "give protection of a kind that clashes with the objectives" of the Copyright Act. See *Sears, Roebuck & Co. v. Stiffel, supra* at p. 231. Take one of Mr. Justice Black's examples in his opinion for this Court in *Sears*, and apply it in the copyright sphere. He there stated: "Obviously a State could not consistently with the Supremacy Clause of the Constitution, extend the life of a patent beyond its expiration date . . ." *Sears, Roebuck & Co. v. Stiffel, supra* at p. 231. It is, surely, equally obvious that a State could not as a matter of state law extend the life of a copyright beyond its expiration date. In each case this would constitute a clash with the federal objectives even if one cannot point to any statement of legislative intent negating such attempted state action. To take another example, under the Copyright Act a composer has the power to prohibit "public" performances of his work. See 17 U.S.C. Sec. 1(e) (1909 Act); 17 U.S.C. Sec. 106(5) (1976 Act). Suppose a state law purported to grant to a composer the power to prohibit "private" performances of his work. Surely, it could not be argued that such a state law could validly extend the author's rights under the Copyright Act by merely, in the words of the court of appeals below, adding "an additional right" (621 F.2d at p. 977) beyond what was provided for under federal law. Again there would be an impermissible clash with federal objectives.

The manner in which such a clash is determined under the new Copyright Act is instructive and may be regarded as a codification of what was the law under the 1909 Act. Under Sec. 301 of the 1976 Act there is federal preemption of state law if two elements coalesce. The state law must apply to that which falls under the subject matter of the Copyright Act, and in addition such state law must provide rights that are "equivalent" to rights provided for under the Copyright Act. 17 U.S.C. Sec. 301(a) and (b). See generally *Nimmer on Copyright*, § 1.01[B] (1980). For this purpose, a right under state law is "equivalent" to a right under the Copyright Act "even though the scope of exclusive rights given the work under the bill [i.e. the Copyright Act of 1976] is narrower than the scope of common law [or state law] rights in the work might have been." H.R.Rep. No. 94-1476, 94th Cong., 2d Sess., p. 131 (1976). "The preemption is intended to be complete with respect to any work coming within the scope of the bill, even though it would not be given as broad protection as might otherwise be available to it under the common [or state] law. For example, since sound recordings are now to be made copyrightable works, it would not be possible to afford them any rights of public performance under State law even though they are denied those rights under section 112 [now section 114] of the statute." Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, 89th Cong., 1st Sess., p. 84 Copyright Law Revision Part 6 (House Comm. Print 1965).

It must follow, then, that a state law which purported to grant to an artist the absolute right to prohibit resale of his painted canvas would have created a right "equivalent" to that created under the Copyright Act, and hence, since it applied to Copyright Act subject matter, would be the sub-

ject of federal preemption. The fact that the state law would be narrower in one respect than the federal law in that it would not apply to the first sale, and in another respect would be broader than the federal law in that it would apply to subsequent sales, would not avoid its status as an equivalent, and hence preempted right.

Does the fact that the California Resale Royalties Act in fact does not prohibit resales, but merely gives the artist a right to receive a royalty arising out of the purchase price of any such resale save it from federal preemption? Taking note that Sec. 27 of the 1909 Act negated the right to "forbid, prevent, or restrict" any resale, the court of appeals below implicitly conceded that a state law which did forbid or prevent such resales would be the subject of federal preemption. The court below nevertheless upheld the California Resale Royalties Act on the ground that not only did it not forbid or prevent such resales, but that in addition "technically speaking such acts in no way restrict the transfer of art works". 621 F.2d at p. 977. The court so concluded because "no lien to secure the royalty is attached to the work itself, nor is the buyer made secondarily liable for the royalty." 621 F.2d at pp. 977-8. This is less than a technical use of the term "restrict". It is an inaccurate use of such term. The court of appeals seems to assume that a legal provision does not constitute a restriction on a sale unless such provision affords the legal possibility to invalidate the sale (via execution on a lien). But that is the precise difference between the legal power to "prevent" which could invalidate a sale, and a measure which is merely restrictive. The court of appeals acknowledges that by reason of the California Resale Royalties Act "the holder may defer selling until the work's value has appreciated to a greater extent than otherwise might have been the case." 621 F.2d at p. 978. In any realistic sense, that surely is a

"restriction" on sale, even if it is not a flat prohibition. Indeed, even a state law which purported to "forbid" such a resale, but for which the only remedy is criminal prosecution of the seller would not result in the invalidation of the sale per se and yet fall within the Sec. 27 ban on laws which "forbid, prevent, or restrict".

c. The Distortion of the Federal Copyright Scheme That Could Flow From a Failure to Invoke Preemption in the Present Case.

If the opinion of the court of appeals below is permitted to stand without reversal or modification by this Court, its impact on federal-state relations in the realm of copyright could be devastating. The court of appeals upheld the Resale Royalties Act as "an additional right similar to the additional protection afforded by California's anti-pirating statute upheld in *Goldstein*." 621 F.2d at p. 977. It thus equated for preemption purposes a state law (such as that in *Goldstein*) which extended protection to a category of work unprotected under the Copyright Act, and a state law which (contrary to the teachings of *Sears* and *Compco*) enlarges rights with respect to a category of work which does fall within the subject matter covered by the Copyright Act. If the opinion of the court of appeals below is allowed to stand it would mean that the California (or other) legislatures could as a matter of state law tinker with the Copyright Act in a variety of damaging ways. It could for example, extend the term of protection for a work which would otherwise enter the public domain under the federal Copyright Act. This too would merely be adding "an additional right" 621 F.2d at p. 977. There could be a state performance right in sound recordings notwithstanding the absence of such a right under federal law. See 17 U.S.C. Sec. 114(a) and *Nimmer on Copyright*, § 8.14[A]. Closer to the present facts, if the

"first sale doctrine" does not constitute a restriction on state law, it would mean that the second hand market in used books could be wiped out by a state law enacted at the behest of book publishers, or at the very least a prohibitive royalty on the sale of used books could be imposed. That this is not a fanciful possibility is suggested by the current movement for imposition of a "lending right" whereby libraries would be required to charge their patrons a copyright royalty payable to the authors whose books are borrowed. Such a right was recently enacted into law in the United Kingdom. See Public Lending Right Act 1979 (S.I. 1980 No. 83). Whether such a right should be enacted in the United States is something upon which reasonable persons may differ. It is submitted, however, that any such right, if enacted at all, must be on the federal level. A Balkanization of copyright protection that would follow from the preemption approach adopted by the court of appeals below could ultimately unravel the unitary copyright system so carefully evolved over the years.

The resale royalty principle as applied to works of fine art is borrowed from the European doctrine of droit de suite. See *Nimmer on Copyright*, § 8.22 (1980). Although there are those who argue that it is an inappropriate principle under the American system (see Monroe Price, "Government Policy and Economic Security for Artists: The Case of the Droit de Suite", 77 Yale L.J. 1333 (1968)), it is also arguable that the first sale doctrine, although a proper limitation in the realm of literary works, should give way to a resale royalties principle in the realm of graphic arts. See *Nimmer on Copyright*, § 8.22[A] (1980). But such a principle, if recognized at all, must be invoked on the federal level. (It is of some significance to note that a bill attempting to provide for such a law on the federal level was introduced (H.R. 11403, 95th Cong., 2d Sess. (1978)), but never went

beyond Committee). As a matter of policy, if some states have a resale royalties law and others do not, the art market will tend to be drawn to those states where sales may be accomplished royalty free. As a matter of law, if it is recognized that the first sale doctrine precludes states from granting to authors the right to prohibit or restrict the second-hand market in their books and video tapes, there is simply no way, absent new federal legislation, to exempt the graphic arts from the same preemptive thrust of the first sale doctrine. Section 27 of the 1909 Copyright Act (and Section 109(a) of the 1976 Copyright Act) apply the first sale doctrine to all copyrighted works. If a distinction is to be recognized for this purpose as between literary works and works of graphic art, such recognition must come from Congress, not from the courts.

2. THE DECISION BELOW RAISES SIGNIFICANT AND RECURRING PROBLEMS CONCERNING THE IMPACT OF THE CONTRACT CLAUSE ON STATE RETROACTIVE LEGISLATION.

The Contract Clause of the United States Constitution for many years remained largely dormant. *Allied Structural Steel Co. v. Spannaus*, 438 U.S. 234 (1978) has now made it clear that this Clause "is not a dead letter" (438 U.S. at p. 241). The holding in *Spannaus* that a state law violated the constitutional prohibition against laws "impairing the obligation of contracts" has naturally sparked great professional interest in the contour and scope of the Contract Clause in the modern era. But it is, of course, not just the members of the legal profession (including its academic component) that seek answers to the many questions posed by the Clause. Less directly, but more significantly, it is the weighty and often antagonistic commercial and social interests whom the legal profession represents that have an

enormous stake in understanding the proper application of the Contract Clause to contemporary legislation. For this reason it is most important that this Court give further guidance to the lower courts, beyond that contained in *Spannaus*, as to just what constitutes an impairment of obligation within the meaning of the Clause.

The present case represents an appropriate vehicle for such a further exploration of this important area of constitutional law. Its facts are sufficiently divergent from those in *Spannaus* so that an analysis by this Court of the application of the Clause in this case will add a significant additional component to a full understanding of the scope of the Clause.

Prima facie, it would appear that the California Resale Royalties Act is in violation of the Contract Clause. By imposing a royalty obligation upon the owner of a work of fine art, even though such owner acquired all rights in such work pursuant to a royalty free contract executed prior to the effective date of the California Act, the state law would appear blatantly to impair the artist-seller's contractual obligation not to exact a royalty or other further consideration from his buyer by reason of the buyer's resale of the work.

This Court in *Spannaus*, looking to *Home Building & Loan Ass'n v. Blaisdell*, 290 U.S. 398 (1934), found five factors which in combination are necessary in order to avoid a holding of invalidity under the Contract Clause. It will be seen that at least four of these factors, and possibly all five, do not appear in the present case. The factors are: (1) A legislative declaration of an emergency requiring enactment of the disputed law. 438 U.S. at p. 242. No such emergency nor a declaration thereof exists in the present case. (2) The state law must have been enacted to protect "a basic societal interest, not a favored group." 438 U.S. at p. 242. It can hardly be disputed that the Resale Royalties

Act is intended to benefit "a favored group", and not society at large. (3) The relief must be "appropriately tailored to the emergency that it was designed to meet". 438 U.S. at p. 242. Since no emergency exists, it can hardly be said that such appropriate tailoring exists. (4) The imposed conditions must be reasonable. 438 U.S. at p. 242. This is the one condition on which there may be a reasonable difference of opinion. (5) The legislation must be "limited to the duration of the emergency". 438 U.S. at p. 242. No such limitation is contained in the California Act. It is vitally important that this Court either make clear that the *Blaisdell* five factors are equally applicable in a case of this sort, or, if not, then that it elucidate what factors are to be considered in their place.

3. THE DECISION BELOW RAISES SIGNIFICANT AND RECURRING PROBLEMS CONCERNING WHAT CONSTITUTES A LEGISLATIVE DEPRIVATION OF PROPERTY WITHOUT DUE PROCESS OF LAW.

The court of appeals below held that the California Resale Royalties Act did not constitute an unconstitutional deprivation of property under the due process clause of the Fourteenth Amendment. It did so primarily on the basis of its characterization of the California Act as an "economic regulation to promote artistic endeavors generally." 621 F.2d at p. 979. Insofar as the California Act imposes a royalty obligation in connection with the resale of works of fine art which had been created prior to the effective date of the Act (see Cal. Civ. Code, Sec. 986(d)), this rationale by the court of appeals is plainly specious. The retroactive application of the royalty obligation to works previously acquired serves no overriding public purpose, and, indeed, can only frustrate the purpose it is manifestly designed to serve. Assuming *arguendo* that the royalty will somehow foster

the arts in California by subsidizing artists throughout the world, its retroactive application cannot further that goal. The prospect of a resale royalty may well encourage some artists to create more art in the future, but it can hardly encourage them to do so in the past. Application of the California Act to past works thus can serve no public purpose at all, no less an overriding one. In fact, to the extent that the resale royalty gives artists an unexpected source of income from previously created works, it can only reduce the artist's economic need to create more works. Even if a royalty will foster the arts, a retroactive royalty undercuts that very purpose.

If the court of appeals' asserted justification "to promote artistic endeavors generally" is seen to have no applicability to the retroactive application of the California Act, then the law does not differ from the most blatant retroactive deprivation of property. Suppose a state law were to provide that beginning on a given date the owner of any real property in the state must, upon the sale of such property, pay to the original developer and subdivider of such property 5% of the gross proceeds realized from such sale. Would not the application of such a law to the sale of previously acquired property be regarded as a clear deprivation of property within the meaning of the due process clause of the Fourteenth Amendment? Note that whether the property which is the subject of sale is real or personal, the property of which the owner is deprived constitutes personal property, *i.e.* 5% of the cash proceeds realized from such sale. If such 5% in the sale of a work of fine art amounts to, for example, $10,000, it is that amount of cash the ownership of which is transferred by the fiat of state law from one person to another. It is true, as the court of appeals below noted, that not every deprivation of property constitutes a violation of due process. Still, the paradigm case to illustrate

unconstitutional retroactivity, and one not often encountered outside of theoretical discussion, occurs where a state legislature purports to "take the property of A and transfer it to B by a mere legislative act." *Story on the Constitution*, Sec. 1399 (5th ed. 1891). Yet, that is precisely what occurs under the California Act with respect to the $10,000 (or whatever amount equals 5% of the gross proceeds—not merely the net profits) realized from the sale of fine art. In such an extreme situation it is submitted that "not even a strong social policy to correct a perceived injustice in the prior law could uphold a taking of property without compensation under the balancing test." Reppy, "Retroactivity of the 1975 California Community Property Reforms", 48 So.Cal. L.Rev. 977, 1070 (1975).

In view of the many cases upholding property deprivation in recent years, it is vital that this Court render a contemporary decision which reviews the paradigm example of property deprivation posed by Mr. Justice Story in the example quoted above, and that it reaffirm the conclusion that in such an extreme case such a law does, indeed, violate due process.

CONCLUSION.

For these reasons, a writ of certiorari should issue to review the judgment and opinion of the Ninth Circuit.

Respectfully submitted,

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APPENDIX A.

Opinion.

United States Court of Appeals for the Ninth Circuit.

Howard Morseburg, Plaintiff-Appellant, v. Andre Balyon and California Arts Council, an agency of the State of California, Defendants-Appellees, v. Richard Mayer and Peter Alexander, Defendants in Intervention-Appellees. No. 78-2129.

Filed: June 17, 1980.

Appeal from the United States District Court for the Central District of California. Before: SNEED, SCHROEDER and ALARCON, Circuit Judges.

SNEED, Circuit Judge: Appellant is an art dealer. On March 24, 1977, he sold two paintings under such circumstances as to require him to pay royalties under the California Resale Royalties Act (California Act), which is set forth in full in the margin.[1] He thereupon brought suit challenging

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[1]Cal. Civil Code provides:

§ 986. Work of fine art; sale; payment of percentage to artist or deposit for Arts Council; failure to pay, action for damages; exemptions

(a) Whenever a work of fine art is sold and the seller resides in California or the sale takes place in California, the seller or his agent shall pay to the artist of such work of fine art or to such artist's agent 5 percent of the amount of such sale. The right of the artist to receive an amount equal to 5 percent of the amount of such sale is not transferable and may be waived only by a contract in writing providing for an amount in excess of 5 percent of the amount of such sale.

(1) When a work of art is sold at an auction or by a gallery, dealer, broker, museum, or other person acting as the agent for the seller the agent shall withhold 5 percent of the amount of the sale, locate the artist and pay the artist.

(2) If the seller or agent is unable to locate and pay the artist within 90 days an amount equal to 5 percent of the amount of the sale shall

the Act's constitutionality, claiming that it is preempted by

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be transferred to the Arts Council.

(3) If a seller or his agent fails to pay an artist the amount equal to 5 percent of the sale of a work of fine art by the artist or fails to transfer such amount to the Arts Council, the artist may bring an action for damages within three years after the date of sale or one year after the discovery of the sale, whichever is longer.

(4) Moneys received by the council pursuant to this section shall be deposited in an account in the Special Deposit Fund in the State Treasury.

(5) The Arts Council shall attempt to locate any artist for whom money is received pursuant to this section. If the council is unable to locate the artist and the artist does not file a written claim for the money received by the council within seven years of the date of sale of the work of fine art, the right of the artist terminates and such money shall be transferred to the operating fund of the council as reimbursement to fund programs of the council.

(6) Any amounts of money held by any seller or agent for the payment of artists pursuant to this section shall be exempt from attachment or execution of judgment by the creditors of such seller or agent.

(b) Subdivision (a) shall not apply to any of the following:

(1) To the initial sale of a work of fine art where legal title to such work at the time of such initial sale is vested in the artist thereof.

(2) To the resale of a work of fine art for a gross sales price of less than one thousand dollars ($1,000).

(3) To a resale after the death of such artist.

(4) To the resale of the work of fine art for a gross sales price less than the purchase price paid by the seller.

(5) To a transfer of a work of fine art which is exchanged for one or more works of fine art or for a combination of cash, other property, and one or more works of fine art where the fair market value of the property exchanged is less than one thousand dollars ($1,000).

(c) For purposes of this section, the following terms have the following meanings:

(1) "Artist" means the person who creates a work of fine art.

(2) "Fine art" means an original painting, sculpture, or drawing.

(d) This section shall become operative on January 1, 1977, and shall apply to works of fine art created before and after its operative date.

(e) If any provision of this section or the application thereof to any person or circumstance is held invalid for any reason, such invalidity shall not affect any other provisions or applications of this section which can be affected, without the invalid provision or application, and to this end the provisions of this section are severable.

the 1909 Copyright Act[2] and that it violates due process and the Contracts Clause of the Constitution. The lower court rejected these contentions. We affirm.

I.

PREEMPTION UNDER THE 1909 COPYRIGHT ACT.

Appellant's preemption argument has compelled us to review in some detail the preemption doctrine as applied by the Supreme Court and developments in copyright law during much of this century and, to some extent, even those of an earlier time. We shall not extend this opinion describing in detail our research but shall limit it to stating our reasoning in a direct and straightforward manner.

Before commencing this statement we emphasize that this case concerns the preemptive effect of the 1909 Act only. We do not consider the extent to which the 1976 Act, particularly section 301(a) and (b), 17 U.S.C. § 301(a) and (b), may have preempted the California Act. It is unavoidable that certain of our reasons will be weighed and measured to determine their applicability to the 1976 Act. Nonetheless, our holding, as well as our reasons, to repeat, are addressed to the 1909 Act only.

Appellant utilizes as the foundation to his argument portions of sections 1 and 27 of the 1909 Act. The selected portion of section 1 reads:

> "Any person entitled thereto, upon complying with the provisions of this title, shall have the exclusive right: (1) To print, reprint, publish, copy, *and vend* the copyrighted work. (Italics supplied.)

The section 27 portion, after providing that the copyright was distinct from the object and that the latter's transfer did not of itself transfer the copyright, reads:

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[2]The 1976 Copyright Act became effective after the sales in question.

> "but nothing in this title shall be deemed to forbid, prevent, or *restrict the transfer* of any copy of a copyrighted work the possession of which has been lawfully obtained." (Italics supplied.)

On this foundation appellant asserts that the California Act impairs the artist's ability *to vend* his "work of fine art" when it is a "copyrighted work" within the meaning of section 1 of the 1909 Act. He also asserts that the California "restricts the transfer" of a copyrighted "work of fine art" when in the hands of one who lawfully obtained it, such as a purchaser from the artist. It follows, appellant contends, that the California Act conflicts with the 1909 Act. Under these circumstances, appellant concludes, the California Act is preempted by the 1909 Copyright Act.

To evaluate appellant's position we shall describe briefly certain aspects of the "works of fine art" market place as well as our perception of the current attitude of the Supreme Court with respect to preemption generally.

A.

Aspects of the Market Place For "Works of Fine Art".

Turning to the market place for "works of fine art," it is frequently the case that such works are not copyrighted and that the sales proceeds realized by the artist upon its first sale are significantly less than the prices at which it subsequently changes hands. *See* Sheehan, *Why Don't Fine Artists Use Statutory Copyright?—An Empirical and Legal Survey*, 22 Bull. Copyright Soc'y 242 (1975); Price and Price, *Right of Artists: The Case of the Droit de Suite*, Art Works: Law, Policy, Practice, 67 (Practising Law Inst. 1974). There are several explanations for both circumstances. The failure to utilize copyright protection has its source in, among other things, ignorance, a distaste for legal details, weak bargaining power, and the desire to avoid

defacing the work with a copyright symbol. *See* Note, *Courting The Artist With Copyright: The 1976 Copyrights Act*, 24 Wayne L. Rev. 1685-86 (1978). An increase in the price of an artist's works after they have left his hands may be the result of greater recognition of the artist, an increase in the overall demand for art works, inflation, unpredictable shifts in fashion and taste, or some combination of the above.

The California Act functions under these conditions. It is an American version of what the French call the *droit de suite*, an art proceeds right. *see* Emley, *The Resale Royalties Act: Paintings, Preemption and Profit*, 8 Golden Gate Univ. L. Rev. 239, 240, n.9 (1978). It provides by force of state law a conditional economic interest of a limited duration in the proceeds of sales other than the initial one. Similar rights perhaps could be obtained by contract. *See* Projansky and Siegelaub, *The Artist's Reserved Rights Transfer and Sale Agreement*, Art Works: Law, Policy, Practice, *supra* at 81. Opinions differ as to whether the existence of such an interest, without regard to its source, will increase the incentives to produce available to the young and not well known artist. *See* Katz, *Copyright Preemption Under the Copyright Act of 1976: The Case of Droit de Suite*, 47 Geo. Wash. L. Rev. 200, 220-21 (1978). Some argue that only a few artists will benefit, as appears to have been the French experience, while others believe such an interest prevents exploitation of the artist's creativity. *See* Hauser, *The French Droit de Suite: The Problem of Protection for the Underprivileged Artist Under the Copyright Law*, 6 Bull. Copyright Soc'y 94 (1959). *See* Merryman & Elsen, Law, Ethics and the Visual Arts, ch. IV *passim* (1979). Resolution of that dispute is not necessary for the purpose of this opinion.

B.

Preemption and the Supreme Court.

With respect to preemption the Supreme Court's emphasis varies from time to time. At times the preemption doctrine has been applied with nationalistic fervor while during other periods with generous tolerance of state involvement in areas already to some extent the subject of national concern. *See* Note, *The Preemption Doctrine: Shifting Perspectives on Federalism and The Burger Court*, 75 Colum. L. Rev. 623 *passim* (1975). Without regard to the emphasis of the period certain basic doctrinal notions repeatedly are used in applying preemption. Thus, the extent to which the federal law has "occupied the field" and the presence of "conflict" between the federal and state law have always been focuses of analytic attention. The nature of the court's emphasis at a particular time is revealed by whether "occupation of the field" and "conflict" are easily found to exist or not. "Occupation" can require no more than the existence of a federal law generally applicable to a significant portion of the area in question to no less than an express statement demonstrating an intention to occupy the area duly enacted by Congress. "Conflict," likewise, can require no more than a mechanical demonstration of potential conflict between federal and state law to no less than a showing of substantial frustration of an important purpose of the federal law by the challenged state law. When the emphasis is to protect and strengthen national power "occupation" and "conflict" are easily found while not so easily found when the emphasis is to promote federalism.

Although there is a discernable cyclical character in the Supreme Court's choice of emphasis, it is also true that, without regard to the particular point in the cycle at which a preemption issue arises, the choice of emphasis is heavily

influenced by the area of the law in which the issue arises. Thus, when the area concerns foreign affairs, as in *Hines v. Davidowitz*, 312 U.S. 52 (1941), or labor relations, as in *San Diego Building Trades Council v. Garmon*, 359 U.S. 236 (1959), the emphasis, not surprisingly, is on the national interest, while when the area is protection of consumers of commodities, as in *Florida Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. 132 (1963), the emphasis understandably is upon the state's interest particularly and the imperatives of federalism generally. *See* Note, *The Preemption Doctrine: Shifting Perspectives on Federalism and The Burger Court, supra* at 638-39.

Fortunately, the Supreme Court provided clear guidance with respect to the emphasis proper for this case. This was done in *Goldstein v. California*, 412 U.S. 546 (1973), in which the court held valid a California statute making it a criminal offense to "pirate" recordings produced by others, an activity against which the copyright holder at that time had no protection. The interests of California in particular and of federalism in general were given emphasis. The Court refused to read the Copyright Clause of the Constitution to foreclose the existence of all state power "to grant to authors the exclusive Right to their respective Writings." *Id.* at 560. Also it held that the 1909 Copyright Act did not preempt the California statute. In support of this conclusion the Court observed that Congress had not exercised its full power under the Copyright Clause and that it was not required to do so. In addition, Congress had evidenced no intent, either expressly or impliedly, to bar the states from exercising their power. As a consequence, the area was not fully occupied by the federal government. This was supported additionally by the Court's explicit conclusion that no conflict between the national and state law existed because state law regulated a matter not covered by the federal Copyright Act

of 1909 in a manner that did not disturb a careful balance struck by Congress between those matters deserving of protection and those things that should remain free. *Id.* at 567-70. Both *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), cases in which state unfair competition laws were held to be preempted by the federal patent law, were distinguished on the ground that in each case the state law upset the federally struck balance between protection and freedom. Finally, the Court in *Goldstein* held that California's statute did not restrain the use or expression of knowledge, truths ascertained, conceptions, or ideas.

We hold that *Goldstein* governs this case. The Copyright Clause does not prevent the enactment by California of Resale Royalties Act. Nor has the Copyright Act of 1909 explicitly forbade the enactment of such an act by a state. A bar by implication cannot be found in the word "vend" in section 1 of the 1909 Act. Doubt concerning the correctness of this conclusion disappears when the rights of the artist who creates a work of fine art are analyzed. Prior to the initial sale he holds title to the work and, assuming proper steps have been taken, all rights given to him by reason of his copyright. None of these provide the right afforded to him by the California Resale Royalties Act. This is an additional right similar to the additional protection afforded by California's anti-pirating statute upheld in *Goldstein*. It is true that under the California Act the right it bestows cannot be waived or transferred. This limits the right created by state law but not any right created by the copyright law.

It would be proper to brand this conclusion as sophistry were it true that the right "to vend" provided by section 1 of the 1909 Act meant a right to transfer the works at all times and at all places free and clear of all claims of others.

It is manifest that such is not its meaning. It merely means that the artist has "the exclusive right to transfer the title for a consideration to others." *See Bauer v. O'Donnell*, 229 U.S. 1, 11 (1912). The California Act does not impair this right; it merely creates a right in personam against a seller of a "work of fine art."

Nor can we conclude that section 27 of the 1909 Act by implication precludes the enactment of resale royalty acts by the states. Technically speaking such acts in no way restrict the transfer of art works. No lien to secure the royalty is attached to the work itself, nor is the buyer made secondarily liable for the royalty. The work can be transferred without restriction. The fact that a resale may create a liability to the creator artist or a state instrumentality and, at the same time, constitute an exercise of a right guaranteed by the Copyright Act does not make the former a legal restraint on the latter. It is true, of course, that the imposition of the royalty may well influence the duration of a purchaser's holding period of a work of fine art. To cover the royalty the holder may defer selling until the work's value has appreciated to a greater extent than otherwise might have been the case. The aggregate volume of business done by the relevant art markets may be diminished somewhat. Moreover, the possibility of the imposition by the state of very high royalty rates and more that one state "taxing" a single sale [3] suggests that resale royalty acts under certain

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[3]The California Act imposes its obligation when "a work of fine art is sold and the seller resides in California or the sale takes place in California." Cal. Civil Code § 986(a). A similar statute enacted by another state could lead to a particular sale being construed as having been made in each state. Similar multiple application could occur if the statute of a state other than California imposed its obligation to protect resident artists whose works were sold within that state. A seller, who was a resident of California and who sold the work within the second state, would be confronted with the application of statutes of two states. Even if the second state adopted a statute identical to that of California, a sale by a California resident in the second state would result in multiple application.

circumstances could make transfer of the work of fine art a practical impossibility. Without regard to how the preemption argument should fare under those circumstances, we are not confronted with them here. We explicitly restrict our holding to the facts before us.

These observations permit us to conclude that the 1909 Copyright Act has not occupied the area with which we are concerned and that the California Act is not in conflict with it. A resale royalty is not provided by the 1909 Act; no hostility toward such a royalty is expressed by the Act; and, on the facts before us, the obligation to pay a resale royalty does not impermissibly restrict resales by the owners of works of fine art. The teaching of *Goldstein* is not limited to situations in which the matter regulated by state law is not covered by the 1909 Act. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), makes this clear. The crucial inquiry is not whether state law reaches matters also subject to federal regulation, but whether the two laws function harmoniously rather than discordantly. We find no discord in this instance. For these reasons we distinguish *Sears* and *Compco* in the same manner as was done in *Goldstein*.

II.

THE CONTRACTS CLAUSE AND DUE PROCESS ISSUE.

Appellant also contends that even if the Resale Royalties Act is not preempted by federal copyright law, it violates either the Contracts Clause or the due process provisions of the Constitution. We hold otherwise.

A.

The Contracts Clause Issue.

The California Act with respect to initial sales by the artist subsequent to its enactment impairs only the power of the artist and his purchaser to contract. The exercise of

the police power of states frequently has this effect and raises no Contracts Clause issue. *See Manigualt v. Springs*, 199 U.S. 473, 480 (1905). With respect to initial sales prior to enactment of the California Act a Contracts Clause issue lurks sufficiently close by to require discussion.

The economic interest bestowed on an artist, who previous to the Act's enactment has parted with his work, can be viewed as a benefit conferred upon him by the state because of its desire to promote artistic endeavor generally. So viewed no Contract Clause issue emerges. Appellant, however, contends that the California Act rewrites his contract with the person from whom he acquired the work to require payment to the creator of the work or the California Arts Council. This is not a compelling characterization of the operation of the Act. However, without regard to whether the California Act can be said to rewrite all pre-California Act sales contracts, the inescapable effect of the Act is to burden such a buyer of a work of fine art with an unbargained-for obligation to pay a royalty to the creator of that work or the Arts Council upon resale. The buyer's obligation is increased, and such an alteration no doubt requires that the Act be scrutinized under the Contracts Clause. *See, e.g., Allied Structural Steel Co. v. Spannaus*, 438 U.S. 234, 244-45, n. 16.

This scrutiny reveals no unconstitutional impairment. The Contracts Clause is not absolute. "One whose rights, such as they are, are subject to state restriction, cannot remove them from the power of the State by making a contract about them." *Hudson County Water Co. v. McCarter*. 209 U.S. 349, 357 (1908). Nor are all impairments of contracts improper. "The States must possess broad power to adopt general regulatory measures without being concerned that private contracts will be impaired, or even destroyed, as a result." *United States Trust Co. v. New Jersey*, 431 U.S.

1, 22 (1977). The degree to which a state may impair the obligations of contract varies with the public need for that impairment. *Allied Structural Steel v. Spannaus, supra*, at 241-42. An insignificant impairment does not need the extensive justification that otherwise might be necessary. *Id.* at 245. Moreover, we should defer to the state legislature's determination of the public need whenever possible. *United States Trust Co. v. New Jersey, supra*, 431 U.S. at 22-23. However, an impairment that is severe, permanent, irrevocable and retroactive and which serves no broad, generalized economic or social purpose violates the Contracts Clause. *See Allied Structural Steel Co. v. Spannous*, 438 U.S. 234, 250 (1978).

If impairment there be, which we are not prepared to concede, it is not of that magnitude. The obligation of the appellant created by the California Act serves a public purpose and is not severe. Under these circumstances the California Act survives a Contracts Clause challenge.

B.

The Due Process Issue.

Appellant's due process arguments fare no better. He asserts that he has lost a fundamental property right; that the Resale Royalties Act affects the very heart of the relationship between buyers and sellers of art; and that there is no public interest whatsoever to support such meddling. We reject these contentions.

We view the California Act, whatever its merits as a legislative matter, as economic regulation to promote artistic endeavors generally. "It is by now well established that legislative Acts adjusting the burdens and benefits of economic life come to the Court with a presumption of constitutionality, and that the burden is on one complaining of a due process violation to establish that the legislature has

acted in an arbitrary and irrational way." *Usery v. Turner Elkhorn Mining Co.*, 428 U.S. 1, 15 (1976). The courts are not to act as "superlegislature[s] to judge the wisdom or desirability of legislative policy determinations made in areas that neither affect fundamental rights nor proceed along suspect lines, . . ." *City of New Orleans v. Dukes*, 427 U.S. 297, 303 (1976).

We would ignore a national characteristic were we to say that an act modeled upon a French law lacked a rational basis. Nor need we do so. The required rational basis exists. Morever, the California Act is neither arbitrary nor capricious. In its present form it does not affect fundamental rights.

Appellant emphasizes that the California Act is retroactive, removing it from the sphere of the usual economic regulation. This is arguable because it is only applicable to sales made subsequent to the passage of the California Act. In any event, "legislation readjusting rights and burdens is not unlawful solely because it upsets otherwise settled expectations." *Usery v. Turner Elkhorn Mining Co.*, 428 U.S. 1, 16 (1976). Many laws upset some expectations regarding the legal consequences of prior conduct. Much legal business consists of assisting clients to adjust their affairs to the new laws. It has been said that "Only when such retroactive effects are so wholly unexpected and disruptive that harsh and oppressive consequences follow is the constitutional limitation exceeded." *Hazelwood Chronic & Convalescent Hospital, Inc. v. Weinberger*, 543 F.2d 703, 708 (9th Cir. 1976), *accord, Matter of U.S. Financial, Inc.*, 594 F.2d 1275 (9th Cir. 1979). The consequences of the California Act in its present form are not of that magnitude.

Affirmed.

APPENDIX B.

Memorandum.

United States District Court Central District of California.

Howard Morseburg, Plaintiff, vs. Andre Balyon and the California Arts Council, an agency of the State of California, Defendants, vs. Richard Mayer and Peter Alexander, Defendants in Intervention. No. CV 77-2410-RMT.

Filed, Mar 23 1978.

Plaintiff has commenced this action for a declaration that the California Artist's Resale Royalties Act, California Civil Code sec. 986, is unconstitutional and unenforceable. The court now has before it cross-motions for summary judgment.

JURISDICTION.

This court has jurisdiction to hear this matter under 28 U.S.C. 1338(a) which grants federal courts exclusive jurisdiction over civil actions arising under any Act of Congress relating to patents and copyrights. Since this court must by necessity construe the Copyright Act to reach a decision as to the constitutionality of the California Resale Royalties Act this cause of action is one "arising under" the Copyright Act.

PROPRIETY OF SUMMARY JUDGMENT.

The facts in this matter are simple and not in controversy. The dispute involves legal issues only, i.e., does the Resale Royalties Act violate the United States Constitution? As such, this is an appropriate case to be decided by summary judgment. Fed.R.Civ.P. 56.

FACTS.

The Resale Royalties Act requires that the seller of a work of fine art (defined as an original painting, sculpture or drawing) pay to the original artist five percent of the

amount of such sale if the gross sales price exceeds $1,-000.00 and is greater that the price paid when the seller acquired the work, so long as the artist is living and the sale is not the initial sale of the work with legal title to the work vested in the artist thereof at the time of the sale. If the sale is made by a gallery, among others, it shall withhold the five percent, locate the artist and pay the artist. If the seller is unable to locate and pay the artist within ninety days of the sale, the seller must remit the money to the California Arts Council, an agency of the State of California. If the Arts Council does not locate the artist and the artist files no written claim for the money within seven years of the sale, the money is transferred to the operating fund of the Council as reimbursment to fund programs of the Council.

The Resale Royalties Act purports to apply to all sales that take place in California, as well as to sales outside California in which the seller is a resident of California. The operative date for the Resale Royalties Act was January 1, 1977 and it explicitly applies to works of art created before and after that date. Artists are prohibited from contractually waiving the resale royalty right except by a written contract providing for payment to the artist in excess of five percent of the proceeds of any sale. Failure of the seller to comply with the Resale Royalties Act affords the artist a cause of action for damages within specified periods of time after the sale or the discovery of the sale.

Plaintiff, in the case at bar, is a Los Angeles, California art dealer. On March 25, 1977, in the State of California, he sold two paintings under such circumstances as to require him to pay resale royalties under the Act in question. Sale No. 1: a work by a living artist, Andre Balyon, for an amount in excess of $1,000.00, which was more than his acquisition price. Mr. Balyon, a defendant in this action, has not answered the complaint. Balyon's whereabouts are

known to the plaintiff. Sale No. 2: a work by one "Antoine Blanchard" for in excess of $1,000.00, which was also more than the acquisition price. Plaintiff states, by way of an uncontested affidavit, that he believes "Blanchard" is a pseudonym of a French artist and that he has neither discovered "Blanchard's" true name nor whereabouts. Thus, under the terms of the Act, the five percent should be transferred to the Arts Council.

Parties have filed cross-motions for summary judgment seeking to, on a number of Federal Constitutional grounds, either uphold or not uphold the Act.* Plaintiff moves this court to declare that he has no obligation to pay the royalties imposed by the Act.

PREEMPTION ARGUMENT.

Plaintiff's main argument is that the Resale Royalties Act is preempted, under the Supremacy Clause of the U.S. Constitution (article VI, clause 2), by the Copyright Act of 1909 and by the Copyright Revision Act of 1976. While the later Act did not take effect until January 1, 1978, after the sales in question in this action and after the complaint herein was filed, plaintiff contends that it both bears upon the meaning and effect of the Copyright Act of 1909 and provides an "independent basis for concluding that the [Resale Royalties] Act is preempted."

There is no basis for preemption because of conflict with the Copyright Act of 1909. *Goldstein v. California*, 412 U.S. 546 (1973); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974); and *Note*: *The Preemption Doctrine*, 75 Col.L.Rev. 623. The right to vend applies to and terminates

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*On November 14, 1977 this court issued an order granting the Bay Area Lawyers for the Arts ("BALA") leave to participate as an amicus curiae. BALA and Defendants in Intervention filed a joint Memorandum on the cross-motions for summary judgment.

with the first sale of the copyrighted work. Since the California Resale Royalties Act only applies to resales, it does not conflict with the right to vend. Obviously, by applying to subsequent resales the California law will indirectly affect, to a certain extent, the distribution of originals. However, this is not significant and there is no indication that Congress intended to restrict states in this manner.

Additionally, there is no conflict with the purpose of the right to vend, which is guaranteeing that the copyright owner receive consideration for the first transfer of ownership.

Contrary to plaintiff's contention, there is no conflict with the Copyright Act's regulation of works in the public domain. Since the concept of being in the public domain does not affect originals, the Resale Royalties Act does not conflict.

There is also no basis for preemption by the Copyright Act of 1909 based on occupation. Congress has not expressed an intention to occupy the field of regulating sales of works of art so as to prevent all state regulation thereof.

As to implied preemption, the state law must be tested to see if it significantly frustrates the objectives of the federal legislation. The main purposes of the federal act is found in the United States Constitution, Art. I, § 8, Cl. 8:

> "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . ."

The Resale Royalties Act is consistent with this purpose; it can only encourage the production and distribution of creative works of fine art. The California law will also increase public access to art and aid in the compensation of artists.

Since the Copyright Revision Act of 1976, by its very terms (sec. 301(b)(2)), does not affect "any cause of action arising from undertakings commenced before January 1, 1978," the court need not reach its impact here. However, the court does note that it was not persuaded by plaintiff that the Revision Act of 1976 preempts the Resale Royalties Act. In fact, it appears that the Resale Royalties Act is not preempted by the Revision Act of 1976.

Not only does the California law not significantly impair any federal interest, but it is the very type of innovative lawmaking that our federalist system is designed to encourage. The California legislature has evidently felt that a need exists to offer further encouragement to and economic protection of artists. That is a decision which the courts shall not lightly reverse. An important index of the moral and cultural strength of a people is their official attitude towards, and nurturing of, a free and vital community of artists. The California Resale Royalties Act may be a small positive step in such a direction.

RETROACTIVE APPLICATION ARGUMENT.

Plaintiff contends that the Resale Royalties Act violates the impairment of contracts and due process clauses of the United States Constitution. Plaintiff bases his contentions on the Act's retroactive application. Plaintiff claims that the retroactivity deprives anyone who purchased an art work prior to January 1, 1977 of vested property rights without due process of law. He also claims that it impairs the obligation of the contract by which the owner acquired the work.

There is no merit to this argument. The contract clause does not prohibit states from enacting legislation with retroactive effects. Neither does the due process clause prohibit retrospective civil legislation.

States possess broad powers to adopt general regulatory measures in the public interest without being concerned that the action will impair, or even destroy, private contracts. The legal requirement is that the statute must be reasonable and of a character appropriate to the public purpose justifying its adoption.

In evaluating the validity of a statute in relation to the impairment of contracts clause, a court properly defers to legislative judgment as to the necessity and reasonableness of the legislation. Further, the court may consider the extent of contractual impairment as a relevant factor in determining reasonableness.

In its examination of the statute under the due process clause, the court must look to the consequences of the retroactive application. Unless such consequences are particularly harsh and oppressive, there is no violation.

Plaintiff fails to adequately allege any facts showing a violation of the impairment of contracts or due process clauses. The public purpose of promoting participation in the arts and encouraging equitable financial treatment of artists outweighs any detriment suffered by plaintiff. By requiring payment to an artist of five percent of the profit on the resale of his art work, the State has moderately compromised plaintiff's contractual rights. That compromise, however, does not violate Constitutional rights.

United States Trust Company of New York v. State of New Jersey, 45 U.S.L.W. 4418 (April 27, 1977);

Usury v. Turner Elkhorn Mining Co., 428 U.S. 1 (1976);

Home Building & Loan Association v. Blaisdell, 290 U.S. 398 (1934).

OUT OF STATE TRANSACTIONS.

The two transactions involved in this case both occurred in Los Angeles, California and, it is not contended that facts involving transactions in interstate commerce are presented. The court, therefore, does not reach plaintiff's contention that the Resale Royalties Act violates the commerce clause. Similarly, plaintiff's contention that California's attempt to regulate transactions in other states violates the due process clause is not reached by this decision.

The California Artist's Resale Royalties Act, California Civil Code section 986, is, for a sale within the State of California, a valid enactment of the California Legislature which does not offend the provisions of the United States Constitution.

Summary Judgment is therefore granted in favor of defendants and against plaintiff.

Dated: March 23, 1978.

ROBERT M. TAKASUGI,
United States District Judge.

APPENDIX C.

Errata Correction to Memorandum of March 23, 1978.

United States District Court Central District of California.

Howard Morseburg, Plaintiff, vs. Andre Balyon and the California Arts Council, an agency of the State of California, Defendants, vs. Richard Mayer and Peter Alexander, Defendants in Intervention. No. CV77-2410-RMT.

FILED MAR. 28, 1978.

On Page 7, line 16, the word "profit" should be stricken and replaced by the phrase "amount of the resale."

The Clerk of the Court is ordered to enter this correction on the Memorandum of March 23, 1978.

Dated: March 28, 1978

ROBERT M. TAKASUGI,
United States District Judge

APPENDIX D.

Civil Code.

§ 986. Work of fine art; sale; payment of percentage to artist or deposit for Arts Council; failure to pay; action for damages; exemptions

(a) Whenever a work of fine art is sold and the seller resides in California or the sale takes place in California, the seller or his agent shall pay to the artist of such work of fine art or to such artist's agent 5 percent of the amount of such sale. The right of the artist to receive an amount equal to 5 percent of the amount of such sale is not transferable and may be waived only by a contract in writing providing for an amount in excess of 5 percent of the amount of such sale.

(1) When a work of art is sold at an auction or by a gallery, dealer, broker, museum, or other person acting as the agent for the seller the agent shall withhold 5 percent of the amount of the sale, locate the artist and pay the artist.

(2) If the seller or agent is unable to locate and pay the aritst within 90 days, an amount equal to 5 percent of the amount of the sale shall be transferred to the Arts Council.

(3) If a seller or his agent fails to pay an artist the amount equal to 5 percent of the sale of a work of fine art by the artist or fails to transfer such amount to the Arts Council, the artist may bring an action for damages within three years after the date of sale or one year after the discovery of the sale, whichever is longer.

(4) Moneys received by the council pursuant to this section shall be deposited in an account in the Special Deposit Fund in the State Treasury.

(5) The Arts Council shall attempt to locate any artist for whom money is received pursuant to this section. If the council is unable to locate the artist and the artist does not

file a written claim for the money received by the council within seven years of the date of sale of the work of fine art, the right of the artist terminates and such money shall be transferred to the operating fund of the council as reimbursement to fund programs of the council.

(6) Any amounts of money held by any seller or agent for the payment of artists pursuant to this section shall be exempt from attachment or execution of judgment by the creditors of such seller or agent.

(b) Subdivision (a) shall not apply to any of the following:

(1) To the initial sale of a work of fine art where legal title to such work at the time of such initial sale is vested in the artist thereof.

(2) To the resale of a work of fine art for a gross sales price of less than one thousand dollars ($1,000).

(3) To a resale after the death of such artist.

(4) To the resale of the work of fine art for a gross sales price less than the purchase price paid by the seller.

(5) To a transfer of a work of fine art which is exchanged for one or more works of fine art or for a combination of cash, other property, and one or more works of fine art where the fair market value of the property exchanged is less than one thousand dollars ($1,000).

(c) For purposes of this section, the following terms have the following meanings:

(1) "Artist" means the person who creates a work of fine art.

(2) "Fine art" means an original painting, sculpture, or drawing.

(d) This section shall become operative on January 1, 1977, and shall apply to works of fine art created before and after its operative date.

(e) If any provision of this section or the application thereof to any person or circumstance is held invalid for any reason, such invalidity shall not affect any other provisions or applications of this section which can be effected, without the invalid provision or application, and to this end the provisions of this section are severable. (Added by Stats. 1976, c. 1228, p. 5542, § 1.)

No. 80-411

Supreme Court, U. S.
FILED
OCT 20 1980
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IN THE

Supreme Court of the United States

October Term 1980

HOWARD MORSEBURG,

Petitioner,

—vs.—

ANDRE BALYON and CALIFORNIA ARTS COUNCIL, an agency of the State of California,

Respondents,

—vs.—

RICHARD MAYER and PETER ALEXANDER,

Respondents in Intervention.

BRIEF FOR RESPONDENTS IN INTERVENTION IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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STATEMENT OF THE CASE

By this action, petitioner seeks a declaration that the California Resale Royalties Act (hereinafter "Resale Royalties Act" or the "Act"), codified as California Civil Code Section 986, is an unconstitutional exercise of the power of the State of California.

Petitioner's Appendix sets forth only Section 1 of the Act. Section 2 of the Act, passed by the legislature but apparently codified in the form of a note to Section 1, provides that:

> "The rights of an artist of a work of fine art to receive payment of an amount equal to 5 percent of the amount of a sale of fine art within the provisions of Section 986 shall be vested at the time of such sale; except that an artist shall have no rights to any payment pursuant to this act, if any provision therein is subsequently repealed so as to remove the provisions for such payment, as to any sale which occurs subsequent to such repeal; and except that, in the event any provision in this act is otherwise subsequently amended or changed, an artist shall have only those rights to any payment pursuant to this act, as to any sale which occurs subsequent to such amendment or change."

On cross-motions for summary judgment, the United States District Court for the Central District of California upheld the Act's constitutionality [CR 239-247] and entered judgment in favor of defendants [CR 238]. The United States Court of Appeals for the Ninth Circuit affirmed. *Morseburg* v. *Balyon,* 621 F.2d 972 (1980).

REASONS FOR DENYING THE WRIT

I. THE DECISION BELOW CONCERNING FEDERAL PREEMPTION OF THE ACT WAS BASED UPON, AND IS ENTIRELY CONSISTENT WITH, THE APPLICABLE DECISIONS OF THIS COURT.

The decision of the court of appeals below was based upon the decision of this Court in *Goldstein* v. *California,* 412 U.S. 546 (1973). The Court below stated that *Goldstein* "provided clear guidance with respect to the emphasis proper for this case," and it held that "*Goldstein* governs this case." 621 F.2d at 977. Under these circumstances, the petition should be denied unless petitioner can show that the decision of the court below is in conflict with the decision of this Court in *Goldstein.*

Petitioner argues that *Goldstein* is "ambiguous," and that this ambiguity "led the court of appeals below into the error of relying upon *Goldstein.*" Petition at 6. Petitioner also asserts that there is a "seeming contradiction" between *Goldstein* and the subsequent decision of this Court in *Kewanee Oil Co.* v. *Bicron Corp.,* 416 U.S. 470 (1974), and that this contradiction "calls for further clarification by this Court." Petition at 5, n. 1. But such ambiguity and contradiction lie solely in the eyes of petitioner, who would seek to rewrite the applicable decisions of this Court.

What *Goldstein* made perfectly clear is the following. First, the Copyright Clause of the Constitution does not vest exclusive control over copyright in the federal government. 412 U.S. at 558. Second, the Supremacy Clause of the Constitution does not prevent the states from acting with respect to works which may be the

subject of copyright where there is no conflict between state and federal law. 412 U.S. at 570. This analysis was reaffirmed and applied in *Kewanee.* 416 U.S. at 478-79.

The court of appeals below found that there is no conflict between the artist's right of first sale under Section 1(a) of the Copyright Act of 1909 and the artist's right to receive a royalty upon the second and subsequent resales of a work of art under Section 986(a) of the California Resale Royalties Act. 621 F.2d at 978. Applying *Goldstein,* the court below quite properly concluded that the California Act is a valid exercise of a power retained by the State of California under the Constitution and that it does not intrude into an area which Congress has preempted.

Petitioner has failed to show any conflict between the decision of the court below concerning federal preemption and the applicable decisions of this Court.

II. THE ACT DOES NOT OFFEND EITHER THE CONTRACTS CLAUSE OR THE DUE PROCESS CLAUSE OF THE CONSTITUTION.

A. *The Contracts Clause*

With respect to petitioner's claim that the Act unconstitutionally impairs his rights of contract, the court of appeals below found that "a Contracts Clause issue lurks sufficiently close by to require discussion." 621 F.2d at 978. The court pointed out that:

> "The degree to which a state may impair the obligations of contract varies with the public need for the impairment. *Allied Structural Steel Co.* v. *Spannaus,* [438 U.S. 234, 241-43, (1978)]. An

> insignificant impairment does not need the extensive justification that otherwise might be necessary. *Id.* at 245. Moreover, we should defer to the state legislature's determination of the public need whenever possible. *United States Trust Co.* v. *New Jersey,* [431 U.S. 1, 22-23 (1977)]." 621 F.2d at 979.

It held that the Resale Royalties Act's imposition of a five percent royalty was simply not of sufficient magnitude to offend the Contracts Clause. *Id.*

We do not agree with the court of appeals that a Contracts Clause issue lurks even close by. The vast majority of cases adjudicated under the Contracts Clause decide rights related to bond or mortgage debts and other sorts of continuing contractual obligations. *See United States Trust Co.* v. *New Jersey, supra,* and *Home Building and Loan Ass'n* v. *Blaisdell,* 290 U.S. 398, 426 (1934), citing *Ogden* v. *Saunders,* 12 Wheat. 213, 354-355. Here, however, petitioner seeks to apply the Clause to the wholly discharged obligations of two executed sales contracts, and does so without citation to similar precedent. Such an extension of the Clause should not be recognized by this Court.

Upon either of the foregoing analyses, it is apparent that the Act does not offend the Contracts Clause of the Constitution.

B. ***The Due Process Clause***

The court of appeals below rejected petitioner's Due Process Clause argument because the retroactive burdens imposed by the Resale Royalties Act are not " 'so wholly unexpected and disruptive that harsh and oppresive consequences follow' " so as to give rise to constitutional concerns. 621 F.2d at 980.

However, we do not believe that there are any property rights affected by the Act. The resale royalty created by the Act is payable only where the artwork involved has appreciated in value. Both the appreciated value and profit from resale of a work of art are, at best, mere expectancies to the purchaser-reseller. At the time of the initial sale, the future value and profit from resale of the artwork are wholly inchoate, particularly in a speculative market. If they be property rights at all, they are so speculative that their status as such creates no impediment to their retroactive alteration by the legislature. *See Mercado e Hijos* v. *Feliciano,* 260 F.2d 500 (1st Cir. 1958) for such a characterization of the possibility of reversion in real property.

Upon either of the foregoing analyses, it is apparent that the Act does not offend the Due Process Clause of the Constitution.

CONCLUSION

In upholding the constitutionality of the California Resale Royalties Act, the district court below said that:

> "Not only does the California law not significantly impair any federal interest, but it is the very type of innovative lawmaking that our federalist system is designed to encourage. The California legislature has evidently felt that a need exists to offer further encouragement to and economic protection of artists. That is a decision which the courts shall not lightly reverse. An important index of the moral and cultural strength of a people is their official attitude towards, and nurturing of, a free and vital community of artists. The California Resale Royal-

ties Act may be a small positive step in such a direction [CR 244: 6-9]."

Both the district court and the court of appeals below found that the Act passes constitutional muster with flying colors. Petitioner has failed to show that their opinions are unsound or that their decisions are in conflict with those of this Court or of another court of appeals. The petition should accordingly be denied.

Respectfully submitted,

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